

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
FINANCIAL STATEMENTS  
AND  
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS  
FOR THE YEAR ENDED JUNE 30, 2013

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
TABLE OF CONTENTS  
JUNE 30, 2013

	<u>Page</u>
<u>Introductory Section</u>	
General Information	2
<u>Financial Section</u>	
Independent Auditor's Report	3
Management's Discussion and Analysis (Unaudited)	5
Government Wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet - Governmental Fund	12
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	13
Notes to Financial Statements	14
<u>Supplementary Information</u>	
Schedule of Expenditures of State Financial Assistance	19
<u>Internal Control and Compliance Section</u>	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	20

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
GENERAL INFORMATION  
JUNE 30, 2013

GENERAL

The Montgomery County Rail Service Authority was established by resolution of the Montgomery County Commission on July 11, 1988, pursuant to Tennessee Code Annotated, Section 7-56-201. The Authority was established for the purpose of providing a continuation of rail service within the area of Montgomery County.

The Authority is governed by a board of directors composed of four members. The members serve a term of four years with the original members serving staggered terms.

The Authority's accounting is handled by and through the office of the Montgomery County Accounts and Budgets.

BOARD OF DIRECTORS

Carolyn Bowers, County Mayor, Chairman

Kim McMillan, City Mayor

Stan Williams, Director

Bryce Sanders, Director



**THURMAN CAMPBELL GROUP, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

Members

American Institute of  
Certified Public Accountants

Tennessee Society of  
Certified Public Accountants

Kentucky Society of  
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Montgomery County Rail Service Authority  
Clarksville, TN 37040

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the major fund of the Montgomery County Rail Service Authority (the Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and requirements prescribed by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Authority as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5–9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the Comptroller of the Treasury, State of Tennessee, as detailed in the Audit Manual, and is also not a required part of the basic financial statements.

The schedule of expenditures of state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedule of expenditures of state financial assistance is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

***Thurman Campbell Group, PLC***

Clarksville, TN  
December 30, 2013

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2013

As management of the Montgomery County Rail Service Authority (the Authority), we offer readers of the Montgomery County Rail Service Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Montgomery County Rail Service Authority's financial statements, which follow this narrative.

Financial Highlights

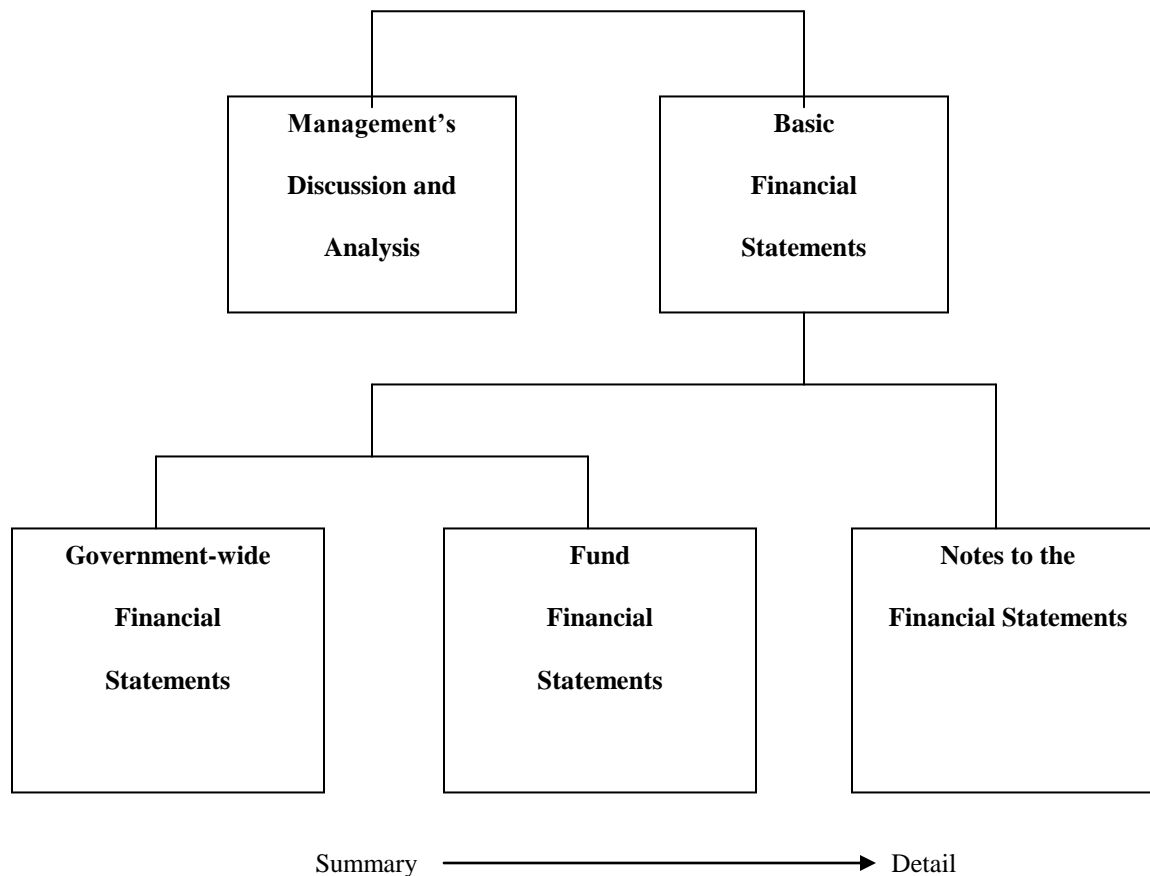
- The assets of the Montgomery County Rail Service Authority exceeded its liabilities at the close of the fiscal year by \$156,294.
- The government's total net position increased by \$9,113, primarily due to increases in the governmental type activities.
- As of the close of the current fiscal year, the Authority's governmental funds reported combined ending fund balances of \$156,294 an increase of \$9,113 in comparison with the prior year. Approximately \$148,541 or 95 percent is restricted for use in the rehabilitation of the RJ Corman Bridge Project. The Authority has \$7,753 available for discretionary spending of the Board.
- At the end of the current fiscal year, unassigned fund balance for the Authority was \$7,753 or 5 percent of total expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Montgomery County Rail Service Authority's basic financial statements. The joint venture's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the joint venture through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Authority.

## Required Components of Annual Financial Report

**Figure 1**



### **Basic Financial Statements**

The first two statements (Pages 10 and 11) in the basic financial statements are the Government-wide Financial Statements. They provide both short and long-term information about the Authority's financial status.

The next statements (Pages 12 through 13) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Authority's government. These statements provide more detail than the government-wide statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the expenditures of state financial assistance.

### Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Authority's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Authority's financial status as a whole.

The two government-wide statements report the Authority's net position and how they have changed. Net position is the difference between the Authority's total assets and total liabilities. Measuring net position is one way to gauge the Authority's financial condition.

The governmental activities include most of the Authority's basic services. State and federal grant funds finance most of these activities.

The government-wide financial statements are on Pages 10 and 11 of this report.

### Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the Authority's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority's like all other governmental entities in Tennessee, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes. The fund of the Authority is a governmental fund.

**Governmental Funds –** Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Authority's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Authority's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds should be described in a reconciliation that is a part of the fund financial statements. However, since the Authority's government wide statements and fund financials statements are essentially the same no such reconciliation was necessary.

**Notes to the Financial Statements –** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 14-18 of this report.

### Government-Wide Financial Analysis

#### **The Montgomery County Rail Service Authority's Net Position**

**Figure 2**

	Governmental Activities	
	2013	2012
Current and other assets	\$ 156,294	\$ 166,141
Total assets	<u>156,294</u>	<u>166,141</u>
Current liabilities	-	18,960
Total liabilities	<u>-</u>	<u>18,960</u>
Net Position:		
Restricted	148,541	133,428
Unrestricted	<u>7,753</u>	<u>13,753</u>
Total net position	<u>\$ 156,294</u>	<u>\$ 147,181</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Authority exceeded liabilities by \$156,294 as of June 30, 2013. The Authority's net position increased by \$9,113 for the fiscal year ended June 30, 2013. However, the largest portion 95% reflects the Authority's restricted assets for funds collected for grant match related to TDOT grants awarded to the Authority. The Authority uses these restricted assets to provide required local match on TDOT grants, consequently, these assets are not available for future spending. The remaining balance of \$7,753 is unrestricted.

Several particular aspects of the Authority's financial operations positively influenced the total governmental net position:

- Continued funding of the Authority's operations due to grant funding obtained from the State of Tennessee.
- The Authority exists to provide improvements to the Montgomery County rail system through reimbursable grants.

### **Montgomery County Rail Service Authority Changes in Net Position**

**Figure 3**

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Operating grants and contributions	\$ 138,193	\$ 143,339
Total revenues	<u>138,193</u>	<u>143,339</u>
Expenses:		
Engineering inspections	123,080	69,030
Legal and audit fees	<u>6,000</u>	<u>5,750</u>
Total expenses	<u>129,080</u>	<u>74,780</u>
Change in net position	9,113	68,559
Net position, July 1	<u>147,181</u>	<u>78,622</u>
Net position, June 30	<u><u>\$ 156,294</u></u>	<u><u>\$ 147,181</u></u>

Governmental activities: Governmental activities increased the Authority's net position by \$9,113, thereby accounting for 100% of the total growth in the net position of the Authority. Key elements of this increase are as follows:

- The Authority's grants revenues and expenses will not equal.
- The only expenses not covered by the grants are yearly audit expenses and local match for the rehabilitation grant.

### **Financial Analysis of the Authority's Funds**

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Authority's financing

requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The Authority has one fund that is the chief operating fund of the Authority. At the end of the current fiscal year, unassigned fund balance was \$7,753, while total fund balance reached \$156,294. As a measure of the Authority's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5 percent of total Authority Fund expenditures.

At June 30, 2013, the governmental funds of Authority reported a combined fund balance of \$156,294, a 6 percent increase over last year.

### **Economic Factors and Next Year's Outlook**

The following key economic indicators reflect the growth and future of the Montgomery County Rail Service Authority.

- The RJ Corman Bridge Rehabilitation Grant was amended in FY 2013 with an approximate construction phase of the project totaling \$3,472,051. The amendment includes the addition of security lighting to the bridge.
- The construction phase of the RJ Corman Bridge Rehabilitation is underway in FY14. The project has an estimated completion date requirement of on or before August 31, 2015.
- Tennessee Department of Transportation terminated track and bridge engineering grant funded projects awarded from the Transportation Equity Trust Fund to Montgomery County Rail Service Authority effective in FY14. The cut in grant funding is due to ongoing legal issues faced on a statewide level. This has no impact on the RJ Corman Bridge Rehabilitation due to the funding source passed through FHWA.

### **Requests for Information**

This report is designed to provide an overview of the Authority's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Shannon Holt, Interim Director of Accounts and Budgets for Montgomery County Tennessee, P.O. Box 368, Clarksville, TN 37041, phone 931-648-5705 or email [sholt@montgomerycountyttn.org](mailto:sholt@montgomerycountyttn.org).

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
STATEMENT OF NET POSITION  
JUNE 30, 2013

<u>ASSETS</u>		Governmental <u>Activities</u>
Assets		
Cash in Bank		\$ 154,571
Due from the City of Clarksville		<u>1,723</u>
Total Assets		<u>\$ 156,294</u>
 <u>LIABILITIES AND NET POSITION</u>		
Liabilities		
Accounts Payable		\$ <u>-</u>
Net Position		
Restricted		148,541
Unrestricted		<u>7,753</u>
Total Net Position		<u>156,294</u>
Total Liabilities and Net Position		<u>\$ 156,294</u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Governmental Activities</u>
Expenses:	
Engineering Inspection	\$ 123,080
Legal & Audit Fees	<u>6,000</u>
Total Expenses	129,080
Program Revenues:	
Operating Grants & Support	138,193
Net Program Revenues	<u>9,113</u>
Change in Net Position	9,113
Net Position-Beginning	<u>147,181</u>
Net Position-Ending	<u><u>\$ 156,294</u></u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
BALANCE SHEET-GOVERNMENTAL FUND  
JUNE 30, 2013

ASSETS

Assets

Cash in Bank	\$ 154,571
Due from the City of Clarksville	<u>1,723</u>
Total Assets	<u><u>\$ 156,294</u></u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts Payable	\$ <u>-</u>
------------------	-------------

Fund Balance

Restricted	148,541
Unassigned	<u>7,753</u>
Total Fund Balance	<u>156,294</u>
Total Liabilities and Fund Balance	<u><u>\$ 156,294</u></u>

**Reconciliation of the Balance Sheet  
of Governmental Funds to the Statement of Net Position:**

Total Governmental Fund Balances	\$ 156,294
Reconciling Items	<u>-</u>
Net Position of the Governmental Activities	<u><u>\$ 156,294</u></u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES-GOVERNMENTAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013

Revenues:

TDOT Grant	\$ 20,800
Montgomery County and Clarksville Support	<u>117,393</u>
Total Revenues	<u>138,193</u>

Expenditures:

Engineering Inspection	123,080
Legal & Audit Fees	<u>6,000</u>
Total Expenditures	<u>129,080</u>

Excess (Deficiency) of Revenues Over Expenditures	9,113
Fund Balance-Beginning	<u>147,181</u>
Fund Balance-Ending	<u><u>\$ 156,294</u></u>

**Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ 9,113
Reconciling Items	<u>-</u>
Change in Net Position of the Governmental Activities	<u><u>\$ 9,113</u></u>

SEE ACCOMPANYING NOTES AND AUDITOR'S REPORT

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Montgomery County Rail Service Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies for the Authority are described as follows:

A. The Financial Reporting Entity

The Authority is responsible for assisting in the continuation of rail service within the area of Montgomery County, Tennessee. One of the four board members of the Authority is appointed by the Montgomery County Mayor with the Montgomery County Commission's approval; one is appointed by the Mayor of Clarksville, Tennessee with the Clarksville City Council's approval; the County Mayor and the City Mayor are the remaining two members of the Board. The Authority is treated as a joint venture because of the ongoing financial interest maintained by Montgomery County. Management functions are handled by County personnel, and cash funds are co-mingled with County funds. Neither the County nor the City has any financial responsibility for, or in, the Authority. The financial reporting entity of the Authority only includes the assets and operations of the Authority and does not include any other fund, organization, institution, agency, department, or office of Montgomery County or the City of Clarksville.

B. Government-Wide and Fund Financial Statements

Both Government-Wide and Fund Financial Statements are presented for the Authority. It should be noted that the fund financial statements and the government-wide statements are essentially the same, because the Authority does not own any capital assets and has no long term liabilities.

C. Measurement Focus and Basis of Accounting

The operations of the Authority are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenditures. Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements include a statement of net position and a statement of activities. These statements present summaries of governmental activities for the Authority. The government-wide statements are presented on an economic resource measurement focus and the accrual basis of accounting. Accordingly, all the Authority's assets and liabilities, including capital assets and long-term liabilities, if any, are included in the accompanying statement of net position.

Fund financial statements report detailed information about the Authority. The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus and modified accrual basis of accounting. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reportS on sources and uses of current financial resources.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

C. Measurement Focus and Basis of Accounting (Cont'd)

Revenues are recognized when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Authority considers revenues to be available if they are collected within thirty days of the end of the fiscal year. Expenditures are generally recognized under modified accrual basis of accounting when the related liabilities are incurred.

D. Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Receivables

Receivables are presented net of any allowance for uncollectible accounts. Bad debts are charged to expenses using the allowance method. Due from the City of Clarksville was \$1,723 as of June 30, 2013 and there was no bad debt expense for the year then ended. All receivables as of June 30, 2013 are considered fully collectible.

G. Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Authority is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

I. Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Authority did not have any nonspendable resources as of June 30, 2013.

II. Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Authority has resources restricted due to restrictions placed on the use of the funds by the contributor (Montgomery County and the City of Clarksville) for the purpose of providing matching grant funds for the rehabilitation of the historic R J Corman Railroad Bridge.

III. Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. The Board of Directors is the highest level of decision-making authority for the Authority. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Authority did not have any committed resources as of June 30, 2013.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

G. Fund Balance Classification (Cont'd)

- IV. Assigned: This classification includes amounts that are constrained by the Authority's intent to be used for a specific purpose, but are neither restricted nor committed. This intent can be expressed by the Board of Directors or through the Board of Directors delegating this responsibility to the County's accounting department through the budgetary process. The Authority did not have any assigned resources as of June 30, 2013.
- V. Unassigned: This classification includes the residual fund balance for the Authority and represents funds that have not been classified as nonspendable, restricted, committed or assigned.

When expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Authority considers restricted funds to have been spent first. When expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Authority considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Authority's Board of Directors has provided otherwise in its commitment or assignment actions. The Authority has not adopted a minimum fund balance policy.

H. New Pronouncements

Effective for the fiscal year ending June 30, 2013, the Authority adopted the provisions of Governmental Accounting Standards Board (GASB), Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

The objective of GASBS 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. There was no material changes in classification made to previously issued financial statements.

GASBS 63 adds the components of deferred outflows of resources and deferred inflows of resources and changes the title of the statement of net assets to statement of net position. GASBS 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of net position. The Authority had no deferred outflows and inflows of resources as of June 30, 2013.

I. Other Significant Accounting Policies

Other significant accounting policies are described throughout the notes section of this audit report or are disclosed in the statement formats.

2. CASH DEPOSITS

Statement No. 40, "Deposit and Investment Risk Disclosures", of the Governmental Accounting Standards Board, states "If a government has no deposit or investment policy that addresses a specific type of risk that it is exposed to, the disclosure should indicate that fact." The Authority does not have an official deposit and investment policy. Although, there is no official deposit and investment policy for the Authority in order to provide a safe temporary medium for investment of the Authority's idle funds, the Authority invests those idle

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2013

2. CASH DEPOSITS (CONT'D)

funds under the provisions of Tennessee Code Annotated 6-56-106. State statutes authorize the Authority to invest in: (1) U.S. government securities and obligations guaranteed by the U.S. government, (2) deposit accounts at state and federally chartered banks and savings and loan associations, and (3) the Local Government Investment Pool of the State of Tennessee.

GASB 40 is designed to inform financial statement users about the deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The Authority recognizes its deposits are subject to custodial credit risk. Custodial credit risk is defined as the risk that a government will not be able to recover its deposits, investments or collateral from the bank in the event of bank failure. As of June 30, 2013, the Authority maintains its cash balances with the Montgomery County Trustee, who deposits the Authority's cash balances with a financial institution that participates in the State of Tennessee Collateral Pool.

3. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, errors and omissions. The Authority has elected to obtain various insurance policies to transfer risk to a commercial insurance company. Insurance settlements have not been in excess of insurance coverage in any of the prior three fiscal years.

4. COMMITMENTS

The Authority had uncompleted construction contracts of approximately \$3,473,531 for rehabilitation of the historic R J Corman Railroad Bridge as of June 30, 2013. These contracts will be paid in future periods as work is performed. Payments will be made with grant proceeds and local matching contributions from the Montgomery County, the City of Clarksville and R J Corman Railroad Group.

5. GRANTS AND CONTRIBUTIONS

The Authority has been awarded a grant of \$2,777,641 by the Tennessee Department of Transportation (TDOT) for rehabilitation of the historic R J Corman Railroad Bridge. None of these funds have been received or expended to date. Local matching grant contributions have also been secured through Montgomery County, the City of Clarksville and R J Corman Railroad Group in the amount of \$247,803, \$247,803 and \$336,605, respectively. Montgomery County's portion has been received in full and the City of Clarksville has provided \$34,450 during the year ended June 30, 2013. The remaining matching grant contributions from the City of Clarksville will be received as the work is performed in future periods. In August 2013, R J Corman Railroad Group provided its portion of the matching contributions in full.

6. CONCENTRATIONS

Financial instruments that potentially subject the Authority to significant concentrations of credit risk consist primarily of cash deposits and receivables. The Authority, through County Trustee, maintains cash deposits with federally insured financial institutions and with members of Tennessee Bank Collateral Pool and believes it is not exposed to any significant credit risk on its balances. Due from the City of Clarksville is considered fully collectible as of June 30, 2013.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONT'D)  
JUNE 30, 2013

7. RESTRICTED ASSETS

Restricted assets represents cash restricted due to restrictions placed on the use of the funds from the contributor (Montgomery County and the City of Clarksville) for the purpose of providing matching grant funds for the rehabilitation of the historic R J Corman Railroad Bridge. Assets restricted for this purpose were \$148,541 at June 30, 2013.

8. ECONOMIC DEPENDENCY

The authority receives the majority of its support and revenue from the Tennessee Department of Transportation (TDOT), Montgomery County and the City of Clarksville. A major reduction of funds from either source would have a material effect on the operations and on the financial position of the Authority.

9. RELATED PARTY TRANSACTIONS

The Authority is treated as a joint venture between the Montgomery County, Tennessee and the City of Clarksville, Tennessee. The Authority was established for the purpose of providing a continuation of rail service within the area of Montgomery County. Montgomery County and the City of Clarksville contributed \$82,943 and \$34,450, respectively, to the Authority for the operating activities during the year ended June 30, 2013.

10. LEGAL REQUIREMENT FOR A BUDGET

Tennessee Code Annotated does not require the passing of an annual budget by the Authority thus eliminating the need for a budget comparison schedule.

MONTGOMERY COUNTY RAIL SERVICE AUTHORITY  
SUPPLEMENTARY INFORMATION-  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED JUNE 30, 2013

<u>Federal Grantor/ Pass Through Grantor</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Beginning (Receivable)</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending (Receivable)</u>
<u>State Financial Assistance</u>						
TN Department of Transportation/ Multimodal Transportation Resources	N/A	Z-12-RE1048-00	\$ (14,520)	\$ 35,320	\$ 20,800	-
		Total Awards	<u>\$ (14,520)</u>	<u>\$ 35,320</u>	<u>\$ 20,800</u>	<u>\$ -</u>

Basis of presentation:

The accompanying Schedule of Expenditures of State Financial Assistance is presented using the accrual basis of accounting.

SEE AUDITOR'S REPORT



**THURMAN CAMPBELL GROUP, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

Members

American Institute of  
Certified Public Accountants

Tennessee Society of  
Certified Public Accountants

Kentucky Society of  
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Montgomery County Rail Service Authority  
Clarksville, TN 37040

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of the Montgomery County Rail Service Authority (the Authority) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 30, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Thurman Campbell Group, PLC*

Clarksville, TN  
December 30, 2013